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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000235

SIPDIS

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TAGS: [EFIN](#) [PREL](#) [ECON](#) [BM](#)

SUBJECT: BURMA'S BANKS: SURVIVAL OF THE FITTEST

REF: A. RANGOON 225

- [B](#). RANGOON 214
- [C](#). RANGOON 213
- [D](#). RANGOON 30

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

[1](#)1. (C) Summary: The GOB has finally made a public statement (on February 21) and committed to a strategy that will hopefully spark a turnaround and begin to reshape the private banking sector. As the crisis enters its second week, we can only await the effect of the GOB's strategy on depositors, industry, and wage earners. End summary.

S-1: Go About Your Business

[1](#)2. (C) Secretary One (S-1), General Khin Nyunt, made the first public GOB statement on the banking crisis on Friday the 21st. To ensure its readers would not skip over the important message, which was buried toward the end of a ponderous speech on the economy, the SPDC mouthpiece "The New Light of Myanmar" printed in bold type (in both the English and Burmese language editions) S-1's brief statement on the banks.

[1](#)3. (C) The comment, surprisingly measured, called on people to "do their work as usual without any worry concerning the banks." The causes for the current crisis were not "destructionist elements," but negative "rumors" about the safety of the banks. S-1 assured listeners that money is safer in the banks than outside, and that "banks guarantee the safety of the savings." While not going so far as to extend a GOB guarantee of people's savings, S-1 did say that "the government is rendering assistance for the convenience of the people."

Assistance Being Rendered

[1](#)4. (C) In fact, the GOB did start off the week with some efforts to get the crisis under control. Bankers and other businessmen corroborated a rumor we'd been hearing that the Central Bank had extended lines of credit worth 25 billion kyat (about \$25 million) to the three largest private banks -- AWB, Yoma, and KBZ -- and between 10 billion and 20 billion kyat total to three other private banks -- MOB, MUB, and Mayflower. As mentioned in Ref A, this money is being offered only to banks that can provide collateral (real assets) both on their books and in their possession. At the end of business on February 24, limits on withdrawals were still in place and most private banks still were offering only 100,000 kyat (about \$100) per week to depositors.

[1](#)5. (C) We've also heard that the quasi-governmental association overseeing Burma's industrial zones has instructed garment factory owners to discuss with their bankers the lifting, if need be, of withdrawal ceilings to allow for factories to meet payroll requirements on February [1](#)28. The details and background of this order are unclear, but the businessmen posited that the regime had ordered private banks to support factory payroll operations as part of the deal for additional loans from the Central Bank.

[1](#)6. (C) Trading companies and other firms needing to meet payroll have not received similar instructions. However, one large trader with whom we spoke said that he expected banks to offer some sort of preferential system of withdrawals for corporate customers as payday draws near.

Comment

[1](#)7. (C) The GOB appears to be stumbling toward a reasonable, market-based solution to the current banking crisis. It hasn't provided an across-the-board guarantee of deposits, and has required the banks to cough up real collateral in return for the additional liquidity they require. The collateral will help ensure banks retire their borrowings from the Central Bank as soon as they can, while the lack of a deposit guarantee will leave the onus on depositors, if and when they do get access to their accounts, to choose the best bank for any return deposits they make. Some banks --

basically the worst of them -- will go under, but that's the price of bad operations. Only if all banks threaten to sink will the GOB have to do more. End comment.
Martinez